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**STATE OF WASHINGTON  
DEPARTMENT OF FINANCIAL INSTITUTIONS  
SECURITIES DIVISION**

IN THE MATTER OF DETERMINING  
Whether there has been a violation  
of the Securities Act of Washington by:

Deren Wolfe, d/b/a A.J. Investment Group  
Respondent

SDO - 112 - 00

SUMMARY ORDER TO CEASE AND DESIST

Case No. 00-05-138

THE STATE OF WASHINGTON TO: Deren Wolfe  
18015 32<sup>nd</sup> Avenue E.  
Tacoma, WA 98446

**STATEMENT OF CHARGES**

Please take notice that the Securities Administrator of the State of Washington has reason to believe that the Respondent, Deren Wolfe, has violated the Securities Act of Washington and that his violations justify the entry of an order of the Securities Administrator under RCW 21.20.390 to cease and desist from such violations. The Securities Administrator finds that entry of an order to cease and desist is in the public interest and that delay in ordering the Respondent to cease and desist from such violations would be hazardous to the investors and to the public and that a Summary Order to Cease and Desist should be entered immediately. The Securities Administrator finds as follows:

**TENTATIVE FINDINGS OF FACT**

**RESPONDENT**

1. Deren A. Wolfe is a resident of Washington State, doing business as A.J. Investment Group, a Washington sole proprietorship with its principal place of business at 27705 93<sup>rd</sup> Avenue East, Graham, WA 98338.

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**NATURE OF RESPONDENT'S CONDUCT**

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2. Beginning on or about October 1997, and continuing at least through January 2000, Wolfe, doing business as A.J. Investment Group, held himself out to the public as a registered investment adviser and securities salesperson. During this time period, Wolfe solicited at least \$251,921 from at least 26 investors, the majority of whom were members of his church and family members. Most of the investors had no experience in transactions in securities or understanding of the securities markets in general. Most investors gave Wolfe their retirement funds to invest, confiding to Wolfe that they would be relying on him to prudently invest their funds.
  3. Wolfe represented to investors that he had "graduated from an investment school" and that he was "fully licensed" to act as an investment adviser and securities salesperson. The "investment school" Wolfe had attended regarding transactions in securities was the 3-day "Wall Street Workshop" seminar sponsored by Wade Cook Financial Corporation. Wolfe attended all three days of the seminar, two of which dealt with transactions in securities. At the time of his solicitations Wolfe was not, and had not previously been, licensed to sell securities or to act as an investment adviser in any state.
  4. Wolfe told investors that if they gave their money to Wolfe to manage for them that they could expect large profits, ranging from 10% to 20% per month, with complete safety of principal. Wolfe did not disclose any basis supporting such representations.
  5. Once investors agreed to allow Wolfe to act as their investment adviser, Wolfe required that an advisory fee contract be signed. This contract called for fees of 10% per year and a "service charge" of 5% per month. The contract period varied from investor to investor, and the majority were open-ended. At the time of their investment, Wolfe told investors that they could withdraw their funds at any time. Later, when investors asked to withdraw their funds, Wolfe stated that their contract did not permit investors to withdraw any more than 10% of their funds in a single year.

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6. Wolfe pooled all investor money into a single margin account under his name, which he traded pursuant to aggressive options strategies. Wolfe did not inform investors that he would be pooling all their money. Wolfe did not inform investors that he would be using margin or aggressive options strategies. Wolfe did not obtain a margin agreement or discretionary trading authorization from any investor nor did he explain the risks associated with margin or option trading. In fact, Wolfe had specifically agreed with certain investors that he would not use margin or trade in options with their funds. At the time Wolfe entered into these agreements, Wolfe knew that, due to the commingling of investor funds, it was impossible to segregate or even identify the funds of individual investors.
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7. Wolfe sent investors account statements on an intermittent basis. He prepared those statements himself. Wolfe represented to investors that the account statements listed each transaction made in the investor's own separate brokerage account and their account balance. Due to Wolfe's commingling of all investor money into a single account, Wolfe could not, nor had he ever attempted to determine what securities or which transactions were attributable to any individual investor. The statements Wolfe created and sent to investors listed random balances and transactions and attributed them to particular investors. Often the statements did not even list specific account holdings or transactions, but showed only the purported gain in the investor's "account".
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8. By December 1999, many investors had become concerned about the safety of their funds and the truthfulness of Wolfe. Although each statement indicated that the investor's "account" was profitable, some investors began to discover numerous errors in their statements that could not be reconciled. Other investors stopped receiving statements entirely. Several investors had requested that monthly sums be sent to them to provide income. These monthly payments became sporadic and, in some cases, stopped entirely. When investors questioned Wolfe about these problems, Wolfe blamed his accountant. In fact, Wolfe did not employ an accountant to produce client statements or issue checks to investors.

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9. As a result of Wolfe's inconsistent statements and refusal to provide accurate information, investors began to demand the return of their funds. Wolfe returned the funds of some investors but refused to return the funds of the majority. Although Wolfe had previously represented to investors, both orally and through the account statements he sent to them, that their accounts were profitable and that their principal was intact, Wolfe now claimed that there had been a margin call and that the investors owed Wolfe additional money to cover the margin call. This was the first time many investors had heard of margin. Although most investors refused, some gave Wolfe additional funds.
  10. In April 2000, Wolfe admitted to investors that their funds were gone. Wolfe told some investors this orally, and others received a letter from Wolfe. In the letter, Wolfe stated that, "due to poor advice from my accountant, the trading account had been set up improperly" and that Wolfe was going to return funds to the investors. In reality, Wolfe had never consulted with an accountant regarding the establishment of his brokerage account.
  11. Beginning in May, 2000 Wolfe began to offer investors promissory notes in the amount of their original investment. In some cases, Wolfe offered the notes to investors only on the condition that the investor agree not to take legal action against Wolfe. At least ten investors received promissory notes. To date, no payments have been made on any of these notes.

#### REGISTRATION STATUS

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1. Deren Wolfe is not currently registered as a securities salesperson, investment adviser or broker-dealer in the state of Washington and has not previously been so registered.
  2. A.J. Investment Group is not currently registered as an investment adviser or broker-dealer in the state of Washington and has not previously been so registered.

#### EMERGENCY

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The Securities Administrator finds that an emergency exists because Respondent Wolfe has failed to pay on the promissory notes and knowingly and intentionally engages in dishonest and unethical practices by

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SUMMARY ORDER TO CEASE AND  
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1 acting as an investment adviser, securities salesperson, and broker-dealer without benefit of registration,  
2 engages in discretionary, unauthorized, and unsuitable high-risk trading and trading on margin without  
3 notice to investors, and presents a continuing threat to the investing public.

4 Based upon the above Tentative Findings of Fact, the following Conclusions of Law are made:

#### 5 **CONCLUSIONS OF LAW**

- 6 1. The offer and/or sale of investment accounts or promissory notes described above constitute the offer  
7 and/or sale of a security as defined in RCW 21.20.005(10) and (12).
- 8 2. The offer and/or sale of said securities was made in violation of RCW 21.20.140 because no registration  
9 or notification of claim of exemption for such offer and/or sale is on file with the Administrator of  
10 Securities, state of Washington.
- 11 3. Deren Wolfe has violated RCW 21.20.040 by offering and/or selling said securities while not  
12 registered as a securities salesperson, investment adviser or broker-dealer in the state of Washington.
- 13 4. Deren Wolfe has violated RCW 21.20.040 by managing investor funds through a single account in his  
14 own name and conducting discretionary transactions in securities therein while not registered as an  
15 investment adviser, securities salesperson or broker-dealer in the state of Washington.
- 16 5. The offer and/or sale of said securities was made in violation of RCW 21.20.010 because as set forth  
17 in the Tentative Findings of Fact above, Respondent Wolfe engaged in a scheme or artifice to defraud,  
18 made untrue statements of material fact, or omitted to state material facts necessary in order to make  
19 the statements made, in light of the circumstances under which they were made, not misleading.

#### 20 **SUMMARY ORDER**

21 Based on the foregoing, NOW, THEREFORE, IT IS HEREBY SUMMARILY ORDERED That Deren  
22 Wolfe cease and desist from offering and/or selling securities in any manner in violation of RCW  
23 21.20.140, the section of the Securities Act of Washington requiring registration of securities.

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25 SUMMARY ORDER TO CEASE AND  
26 DESIST

1 It is further SUMMARILY ORDERED that Deren Wolfe cease and desist from violation of RCW  
2 21.20.040, the section of the Securities Act of Washington requiring registration of persons acting as  
3 securities salespersons, broker-dealers, or investment advisers.

4 It is further SUMMARILY ORDERED that Deren Wolfe cease and desist from violation of RCW  
5 21.20.010, the anti-fraud section of the Securities Act.

6 **AUTHORITY AND PROCEDURE**

7 This Order is entered pursuant to the provisions of RCW 21.20.390, and is subject to the provisions of  
8 Chapter 34.05 RCW. The Respondent, Deren Wolfe, may make a written request for a hearing as set forth  
9 in the NOTICE OF OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR HEARING  
10 accompanying this order.

11 If the Respondent does not request a hearing, the Securities Administrator intends to adopt the above  
12 Tentative Findings of Fact and Conclusions of Law as final and make the Summary Order to Cease and  
13 Desist permanent as to the Respondent.

14 WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.

15 DATED this 13TH day of December, 2000.

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18 DEBORAH R. BORTNER  
19 Securities Administrator

20 Presented by:

21 \_\_\_\_\_  
22 Rex A. Staples  
23 Senior Securities Examiner

24 Approved by:

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26 SUMMARY ORDER TO CEASE AND  
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Michael E. Stevenson  
Chief of Enforcement

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